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SUBJECT: NAVIGATING THE MAZE OF PAKISTANI ENERGY POLICY- PART TWO

REFS: A) Islamabad 00655 B) Islamabad 00810 C) Islamabad 00921 D)
Islamabad 01420 E) Islamabad 01623

¶1. (SBU) Summary. Further complicating Pakistan's maze of government organizations with responsibility over energy, the Ministry of Petroleum and Natural Resources and its 16 subordinate agencies, determine the natural gas, oil, mineral and coal policies for a country which desperately needs energy to support industrial expansion and population growth. End Summary.

¶2. (SBU) This is the second piece of a three part cable reviewing the haphazard mix of horizontally and vertically placed institutions which comprise the energy policy making sector of Pakistan. Part one in "Navigating the Energy Maze" focused on the Ministry of Water and Power and its 19 subordinate agencies. Part three will address the other 4 Ministries and 7 subordinate agencies involved in the GOP policy process at various levels. A lack of coordination and absence of any clear line of authority hampers any formulation of policy efforts to address the current energy crisis in Pakistan. As a reference for USG efforts in providing aid to Pakistan's energy sector, the following serves as a roadmap of GOP energy policy making bodies and entities.

¶3. (SBU) This is the sixth cable in a series on Pakistan's energy sector.

Ministry of Petroleum and Natural Resources (MPNR)

¶4. (SBU) Created in April 1977, the MPNR is responsible for coordinating the development of natural resources related to energy and minerals, ensuring the availability and security of a sustainable oil and gas supply for economic development and for the strategic requirements of the country.

¶5. (SBU) With an extremely broad mandate, the MPNR's responsibilities vastly exceed its capacity and capabilities. Tasks include formulating an integrated approach among a maze of federal and differing provincial laws, promoting exploration and fast track development of oil, gas and mineral resources, as well as the deregulation, liberalization and privatization of the oil, gas and mineral sectors. It is also responsible for attracting private investment. MPNR is also mandated to substitute imported fuel oil with indigenous gas.

SUBORDINATE ORGANIZATIONS OF THE MINISTRY OF MPNR

¶16. (SBU) This ministry has 16 subordinate organizations which frequently have duplicative mandates.

Oil and Gas Regulatory Authority

¶17. (SBU) Established by ordinance in 2002, the Oil and Gas Regulatory Authority (OGRA) is mandated to foster competition, increase private investment and ownership in the midstream and downstream petroleum industry, and to regulate activities relating to LPG (Liquefied Petroleum Gas) and CNG (Compressed Natural Gas), and to set retail prices on oil and gas. OGRA Management is comprised of a Chairman and three members. As a regulatory authority, OGRA is intended to be an autonomous body, but in practice it works under the influence of MPNR. (Comment: This influence was most recently noted when domestic retail oil price increases, which should be under OGRA's direct authority, were delayed for two months pending MPNR approvals. End Comment.)

¶18. (SBU) Three distribution companies (DISCOs) serve 14 of Pakistan's 15 independent power producers (IPPs). All IPPs, except Hub Power Company which owns a jetty in Karachi, depend on either Pakistan State Oil, Sui Northern Gas Pipelines or Sui Southern Gas Company for their supply of furnace oil and natural gas.

Sui Southern Gas Company limited

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¶19. (SBU) Sui Southern Gas Company (SSGC) is Pakistan's most integrated gas company engaged transmission and distribution of natural gas as well as the construction of high pressure transmission and low pressure distribution systems. SSGC's transmission system extends from Sui in Balochistan Province to Karachi in Sindh Province and comprises over 3,200 KM of high pressure pipelines. Regional offices implement distribution activities for over 1200 towns in Sindh and Balochistan. An average of 357,129 million cubic feet (MMCFD) of gas was sold in 2006-2007 to over 1.9 million industrial, commercial and domestic consumers in these regions through a distribution network expanding 29,832 kilometers.

¶10. (SBU) The Company is managed by an autonomous Board of Directors for policy guidelines and overall control. SSGC's Board is governed by an elected Board of Directors comprised of 14 members, of which 10 are government appointees and 4 are from the private sector.

Sui Northern Gas Pipelines limited

¶11. (SBU) Sui Northern Gas Pipelines Limited (SNGP) is the largest gas company serving more than 3 million consumers, as well as significant and rapidly growing industrial development, in North Central Pakistan through an extensive network in Punjab and the North West Frontier Province (NWFP). The Company is governed by an elected Board of Directors comprised of 14 members of which 10 are government appointees and 4 are from the private sector.

¶12. (SBU) All power projects based on natural gas must negotiate their fuel supply agreements with SNGP and SSGC. With an expansion of activities, SNGP also undertakes the planning, designing and construction of pipelines, both for itself and other organizations.

¶13. (SBU) This 70 percent state-owned company also owns and operates the only gas meter manufacturing plant in the country, with an

annual production capacity of over 550,000 meters. It is also the fuel supplier to the IPPs located in the provinces of Sindh and Baluchistan.

Pakistan State Oil Limited

¶14. (SBU) Pakistan State Oil (PSO) is Pakistan's largest oil company, with over 82 percent of the unrefined oil market and a 61 percent share of the refined market. It is engaged in import, storage, distribution and marketing of various petroleum, and oil lubricant products including gasoline, diesel, fuel oil, jet fuel, kerosene, liquefied petroleum gas, compressed natural gas and petro-chemicals. PSO serves a wide range of customers throughout Pakistan, including the retail, industrial, aviation, marine and government/defense sectors. In 1994, PSO was the only oil marketing company, and invested approximately USD 2.2 billion, to enter the power sector. PSO captured a market share of approximately 88 percent and currently supplies all power plants from its state-of-the-art oil installations at Zulfiqarabad and from up country depots and installations. IPPs store their furnace oil at PSO storage facilities.

¶15. (SBU) Appointed by the MPNR, the PSO Managing Director controls the administrative functions, but policy decisions are taken by a Board of Directors. With a mixture of public and private members, the board is composed of a Chairman, nine directors and a company secretary with the managing director also serving as a non-executive

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member of the board.

Pakistan Petroleum Limited

¶16. (SBU) As the oldest and largest exploration and production company in Pakistan, production of natural gas from Pakistan Petroleum Ltd (PPL) fields meets about 25 percent of the country's

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indigenous production. Incorporated in 1950, PPL inherited all the assets and liabilities of the British Company Burmah Oil Company Limited. The organization is controlled by a Board of Directors, from both the public and private sector, which includes a Chairman, a CEO, six Directors and a Company Secretary.

¶17. (SBU) In 1952, the very first year of its business, Pakistan Petroleum Ltd. achieved a major breakthrough with a huge discovery of natural gas near the present town of Sui, in the province of Balochistan. Sui gas field is located about 650 km north of Karachi. At the time of its discovery, Sui was Pakistan's biggest natural gas reserve with 12.625 trillion cubic feet (TCF) of gas. Since discovery, 9.128 TCF has been used and as of early 2008, the balance of recoverable gas at Sui is 3.497 TCF. If current consumption rates continue, without any expansion, the Sui gas fields will be depleted in approximately 2020. Today the UCH gas field, with 4.4353 TCF, is the largest gas field in Pakistan. At the UCH field, natural gas was encountered at a depth of around 4,000 feet, however, drilling continued to a final depth of 10,049 feet in a failed search for oil.

Oil and Gas Development Corporation Limited

¶18. (SBU) The Oil and Gas Development Corporation Limited (OGDCL) is the national oil and gas company of Pakistan and the flagship of the country's exploration and production sector. OGDCL is the local market leader in terms of reserves, production and acreage, and is listed on all three stock exchanges in Pakistan and since December 2006, on the London Stock Exchange. OGDCL is governed by a Board of Directors headed by a President/CEO from the private sector and 10 Directors from the public and private sectors.

Hydro Carbon Development Institute of Pakistan

¶19. (SBU) The Hydrocarbon Development Institute of Pakistan (HDIP) is the national petroleum research and development organization. As an autonomous body of the MPNP established in 1975, the HDIP carries out applied research, provides consultancy and laboratory services to the petroleum industry and gives technical advice to the GOP on national policies for the development of the hydrocarbon industry. HDIP recommends measures for controlling environmental pollution from hydrocarbon operations; carries out quality control and standardization of hydrocarbons including crude petroleum, petroleum products, liquefied petroleum gas and natural gas; and their blends as well as develops and promotes the use of clean, economic and alternative fuel.

¶20. (SBU) Encouraged by its early successes, HDIP was reestablished through an Act of the Parliament in January 2006 to give the organization more teeth. (Comment: Under the GOP structure, an organization created through an act of the Parliament is permanent where as organizations created through Ordinances can be short lived. End Comment.) It is controlled by a 10-member Board of Governors with the Minister for Petroleum and Natural Resources as Chairman. The Institute, headed by the Director General, has 290 employees, including scientists and engineers.

Government Holdings (Private) Limited

¶21. (SBU) In response to foreign investors demands for a more streamlined process, Government Holdings Limited (GHL), began operations in 2000 to promote zone allocations for drilling and exploration of natural gas and oil. Prior to 2000, the Oil and Gas Development Corporation allocated the exploration zones, assisted the MPNR in its regulatory functions and overlooked GOP joint ventures. In an effort to facilitate exploration by foreign investors, the GHL was formed to separate zone allocation functions from joint venture activities.

¶22. (SBU) GHL is mandated to manage and monitor the GOP's interest in oil and gas exploration and production. It facilitates joint ventures as well as equity participation in public companies. However, OGRA was not abolished and thus duplicative approvals are

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now required. GHL is governed by a board of directors from the public and private sector. The Secretary of the MPNR is the Chairman of the Board assisted by five directors.

Geological Survey of Pakistan

¶23. (SBU) Attached to the MPNR, the Geological Survey of Pakistan is the oldest national research organization in Pakistan. Responsibilities include coordinating the study of geology and resource potential. It undertakes geological investigations in connection with the construction of large civil engineering projects, soil conservation, range and watershed management, agricultural development, as well as land use and town planning. It also evaluates geological hazards associated with earthquakes, volcanic activity, waste disposal, landslides, subsidence and other ground failures and develops methods for hazard prediction and mitigation.

¶24. (SBU) Power projects in the public and private sector must obtain design and seismic assessment clearances from the organization. Led by a Director General at the head office in Quetta, the regional offices are managed by four Deputy Director Generals. The MPNR appoints the DG and DDGs, who are public servants promoted from within the Ministry or the GSP.

Pakistan Mineral Development Corporation Limited

¶25. (SBU) The Pakistan Mineral Development Corporation (PMDC) was established in 1974 to explore, plan, develop and operate mining ventures in Pakistan and later to develop the coal resources of the Lakara coal field. The PMDC is an autonomous corporation attached to the MPNR. The PMDC prepares feasibility reports for mineral exploitation, project design, as well as mines and markets mineral deposits. The PMDC operates four coal mines and four salt mines producing 10 percent of the domestic coal and 45 percent of the salt.

¶26. (SBU) The Secretary of MPNR serves as the Chairman of the PMDC Board of Directors and a Managing Director runs the administrative affairs of the company. (Comment: The company has experience in open pit and underground coal mining at the Lakara coal fields but has been prohibited from working on the development of Thar coal fields because the Sindh Provincial government refuses to give operational permission to any federal agency, including PMDC. End Comment.)

Inter State Gas System Private Limited

¶27. (SBU) Inter State Gas System Limited was established in 1996 under the umbrella of MPNR as a joint venture of SSGC and SNGPL to import natural gas through cross border pipelines to meet the growing energy requirements of the country. Citing a lack of qualified expertise in the public sector, the GOP uses ISGS as expert advisors in international pipeline negotiations, gas import deals and to conduct needs assessments.

COAL

¶28. (SBU) Policy decisions for the development of minerals are the responsibility of MPNR through its Minerals Wing, which is headed by a Director General and assisted by two directors and a deputy director. However, the Constitution of Pakistan gives the provincial governments full authority in the development of mineral rights. Since the provincial governments are lacking in both the resources and the expertise to develop coal resources, the GOP created the Sindh Coal Authority and Thar Coal Mining Company to work closely with MPNR's and Sindh's Department for Mines and Minerals Development. MPNR continues to exert heavy influence over these organizations.

¶29. (SBU) At present only a negligible percentage of coal (less than 3 percent) is used for energy production in Pakistan. The MPNR

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Minerals Wing is conducting assessments and exploration studies of these two coal reserves, albeit without private sector input. The GOP's Energy Security Plans call for 30 percent of electrical generation through coal by the year 2030.

Sindh Coal Authority

¶30. (SBU) Falling under the administrative control of the Provincial Department of Mines and Mineral Development, the Sindh Coal Authority was established in 1994 for the exploration, development and utilization of the vast Sindh lignite coal resources. The Authority is run by a board of directors including a Chairman and four Members.

¶31. (SBU) Blessed with large quantities of minerals, Sindh province currently is mining 24 different minerals. Sindh is home to an estimated 185 billion tons of coal in Thar, the largest coal reserves in Pakistan.

Lakhra Coal Development Company

¶32. (SBU) Lakhra Coal Development Company Limited (LCDC) is a joint venture company of Pakistan Mineral Development Corporation (PMDC), WAPDA and the Provincial Government of Sindh which was formed to supply coal to WAPDA's coal fired power plant at Khanote, Sindh. With an estimated coal requirement of 750,000 tons annually for three 50 MW units, over 16,000 acres of leased land was assigned to LCDC for open pit mining.

¶33. (SBU) While current LCDC production feeds only the WAPDA coal fired plant, a Chinese company was contracted to prepare a feasibility study for mechanized mining in this leased area, but exploration has yet to take place. Privatization plans call for both LCDC and WAPDA's thermal power stations at Khanote to be privatized in tandem. However, the Ministry of Privatization has stalled LCDC's privatization efforts due to the vast inefficiency of the WAPDA power plant. Currently the WAPDA plant operates at an enormous loss, with a 150 MW plant producing less than 50MW of electricity, and operating for only 3 months per year due to poor maintenance.

¶34. (SBU) LCDC is governed by a Board of Directors with a hybrid mix of federal and provincial authorities such as the provincial minerals development department, the Federal Finance Ministry and WAPDA.

Pakistan Arab Refinery Limited

¶35. (SBU) Incorporated in 1974 as a public company under the administrative control of MPNR, Pakistan Arab Refinery (PARCO) is a joint venture between Pakistan (60 percent) and the United Arab Emirates (Abu Dhabi Petroleum Investment, 40 percent). PARCO's major activities include oil refining, oil pipeline systems, storage and marketing.

¶36. (SBU) With an equity of USD 645 million, PARCO is a key player in the country's oil supply and logistics. PARCO's competitive advantages through the integration of pipeline operations, strategic storage, technically advanced refining and a significant role in the marketing of petroleum products, have enabled it to achieve a unique position in the Pakistani energy supply chain. It transports crude from Karachi to Multan for its Mid-Country Refinery, and refined products such as diesel and kerosene to Faisalabad and to Lahore.

¶37. (SBU) PARCO's 100,000 bpd, Mid-Country Refinery, built at a cost of USD 886 million, represents around 40 percent of the indigenous refining capacity in Pakistan and helps substitute USD 100 million of imports into refined oil products each year. In March 2005, at a cost of USD 480 million, PARCO completed another pipeline to carry up to 12 million tons per year of refined petroleum products from Karachi to Lahore. A UAE-based International Petroleum Investment Company, in association with PARCO, has a 74/26 equity ownership in

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setting up the largest new oil refinery in the region, Khalifa Coastal Refinery, near the coastal area of Baluchistan, with a refining capacity of 300,000 barrels per day.

Saindak Metals Limited

¶38. (SBU) Under the MPNR, the fully state-owned Saindak Metals Company was developed to engage in the exploration and processing of coal, limestone, copper, gold, silver, rock salt, gypsum and other minerals. The company is registered with the Securities and Exchange Commission of Pakistan and headquartered in Saindak, Balochistan. All the members of the SML Board are the nominees of the federal and provincial government with the Secretary of MPNR serving as the Chairman of the Board.

¶39. (SBU) Despite a broad mandate to facilitate mining for energy and other purposes, Saindak has been largely unsuccessful in

fulfilling any part of its mandate due to the unavailability of resources. Pakistan has traditionally only allocated 0.45 percent to 2.46 percent of its total budget to mineral mining, including coal. Saindak has conducted some pre-feasibility studies and has been successful in attracting limited foreign investment in copper and gold mining, however development of domestic coal remains a challenge.

STATE PETROLEUM REFINING AND PETROCHEMICAL CORPORATION

140. (SBU) Charged with research and development for technological support to the petroleum sector and its future development, the Petroleum Refining and Petrochemical Corporation (PERAC) falls under the administrative control of Sui Southern Gas Company (SSGC). The aim was to expose the oil industry to research based solutions to different technical problems, newly developed chemicals and other products. (Comment: While the idea of forming a research company to suggest upgrades to the petroleum sector was not bad, this organization is a classic example of the insanity that prevails in Pakistan's energy sector. This state owned company is chartered to research technological improvements to the petroleum sector (i.e. distribution methods, improved engineering, etc.) but it operates under the administrative control of a "privatized" natural gas producer and distributor, SSGC which reports to the MPNR. End Comment.)

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